

## CITY COUNCIL REPORT

DATE: December 30, 2015

TO: Mayor and Council

FROM: David McIntire, Community Investment Director

CC: Josh Copley, Jerene Watson, Barbara Goodrich, Heidi Hansen, Leadership Team

SUBJECT: Request for Information Regarding the Indirect Economic Impact of Commercial Construction

The following pertains to the request for information regarding the indirect economic benefit to the community from local commercial construction.

### DISCUSSION

In the past couple years there has been a notable amount of construction in the Flagstaff area. This has included new buildings as well as the rehabilitation of existing structures for commercial and residential purposes. This construction provides direct city revenues through one time construction sales tax, permit fees, impact fees, and enhanced valuations for property tax assessments. Additionally, there is also the perception that it provides construction jobs and places for employment for Flagstaff residents. It is possible to quantify the direct revenues to the City generated by these projects with some statistical analysis of proceeds received. However, addressing questions regarding the construction jobs and ongoing employment benefits to the city and the community is more difficult to accomplish in a timely fashion due to the data sources available.

To determine the general level of indirect benefit from construction of commercial improvements staff used the Community Development Innoprise tracking system to generate data on building permits and projects. The system has been in use since July of this year so it provided roughly six months' worth of data. The permits were then filtered to specifically identify commercial building construction permits that have been issued, so permits that have been applied for, but not issued, were not included. Additionally, permits that did not have a contractor listed but were issued directly to the owner were not included as we are not able to determine who did the work from the permit. With that said, it provided seventy (70) projects for analysis. The contractors listed on the permits were then researched through the Registrar of Contractors online to determine the formal company address. Contractors with local zip codes for their main office were counted as local contractors; all other contractors were considered non-local.

Of the permits reviewed approximately **fifty seven percent (57%) were issued to local contractors. Forty three percent (43%)** of those who received permits for commercial projects were from zip codes not considered local.

Another way of analyzing the data is through the estimated value of the projects. **\$7,074,300 of the project value was performed by local contractors. The non-local project valuation was \$26,743,698.** These valuations are estimates for the construction of the buildings only and are not inclusive of the total project cost, but they are a way to create a basic framework of information. This shows a higher proportion of the value going to the non-local builders even though a higher number of permits were issued to local contractors. This is in part due to two specific large projects. Mountain Trails is a multiple building complex that had an estimated value of \$16,478,000. The new Department of Economic Security facility had an estimated value of \$6,000,000. If these two projects were removed it would leave a value for the **non-local contractors of \$4,265,698** which is relatively consistent with the project percentage by number.

These two data points provide some broad context for understanding the indirect impact to local community prosperity of commercial construction. It should be mentioned that the methodology did not account for use of local or non-local subcontractors as only the prime contractor was identified from the permit. The largest project, Mountain Trails, was researched more extensively to be used as an example. The permit was issued to WESPAC Communities, INC which is considered non-local by main office address. WESPAC does maintain an office in Flagstaff. The sub-contractors identified were Hatch Plumbing, Cruise Mechanical and AEC Electric. In this particular example all three sub-contractors listed are local Flagstaff companies.

The methodology also does not account for the use of local engineering or architecture companies. Anecdotally, most projects have a local engineering company as a representative for the permitting process. Additionally, contractors whose main office is located in another community, but who maintain a local office and who hire management or construction staff here, such as WESPAC, were counted as non-local. Revenues from out of town construction workers eating and lodging in Flagstaff were not considered.

Staff is working to develop a method to determine how many new and ongoing jobs were created by the construction and opening of the new and remodeled spaces versus how many were existing jobs which simply moved to a new location. Additionally, a more detailed analysis of direct and indirect revenues from construction is being considered, but in order to provide information in a timely fashion this methodology was selected.

## RECOMMENDATION / CONCLUSION

This report is for information only.